decrees at pleasure, and considerable legislation was put in force through the use of these powers during his administration. New educational, agrarian, banking, mining, petroleum and tariff laws have been passed or are in process of legislation, and these developments should be closely watched by Americans in order that they may keep informed as to what legislation may interfere with or expedite the flow of business. Protective tariff legislation in particular is of the greatest interest to the American exporter.

At the present moment labor in Mexico is rather unsettled, but it is comparatively cheap, and the number of articles that can be manufactured in Mexico in competition with American products is very great. The United States can not compete with the native manufactures of such articles as the cheaper grades of textiles. The large variety of fruits and vegetables raised in Mexico will permit the establishment of more important canning industries. There are now saddle and leather manufactures; sugar refineries; tobacco factories; factories for making soap, gold and silver ornaments, soft drinks, wearing apparel and numerous other things of less importance. As these industries increase in output so that the home markets can be conveniently supplied, import tariffs will be established to prevent foreign competition. Such legislation may inconvenience individual exporters, but it is difficult to conceive of any legislation or other obstacle that can prevent increase in exports from the United States to Mexico. Between 1909 and 1919 the value of exports increased from $49,793,323 to $131,455,101 or 160 per cent, in spite of revolutions, the world war, and other unfavorable factors. It is safe to predict that during the next decade the increase will be much larger, in spite of declining valuations of declared exports.

The Present Outlook for United States' Trade with Germany

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TRADE does not develop naturally between two countries technically in a state of war. The War Trade Board ruling 814 was amended on July 8, 1920, so as to allow "all persons in the United States on or after July 8, 1920, to trade and communicate with all persons with whom trade and communication are prohibited by the Trading with the Enemy Act," but the legal status of contracts between American and German citizens and the degree of protection which their property would enjoy are subject to much uncertainty.

Germany, from her side, has in many ways facilitated American business. No forced liquidation of American firms has taken place during the war, and the law of April 21, 1920, provides for the reinstatement of foreign patents and announces that the period from August 1, 1914, to July 31, 1919, will not be counted as part of the legal duration. The fact that through our failure to ratify the Treaty of Versailles we forfeited the benefits assured under §297, with the result that American firms in Germany are now subject to the payment of the *Reichsnotopfer*, is embarrassing to those firms, but does not seriously interfere

with trade. An effective channel of trade information has been reëstablished through the American Association of Commerce and Trade of Berlin, which recently has opened offices in New York under the name The American Chamber of Commerce of Berlin, and whose official organ, *Transatlantic Trade*, is devoted to German-American trade information.

Whether a rapid revival of trade can be expected after peace is finally declared and whether this trade will hold out large benefits to American industry are questions which can only be tentatively answered after a consideration of the principal factors involved.

Germany's unfavorable commodity balance of some $100,000,000 in 1913 is largely accounted for by the income of the German merchant marine, which at that time represented approximately 10 per cent of the total world tonnage, and by the income of foreign investments. The reduction of the merchant marine to 300,000 gross tons, the loss of the colonies, the liquidation of oversea investments, the confiscation of trademarks and patents, and the destruction of marketing organizations have cut into the means formerly available to Germany for the payment of its imports. German imports must in the future, to a larger degree than before the war, be paid for by exports. The higher the payment exacted under the terms of the Peace Treaty, and the lower the price at which commodities will be accepted in liquidation of the debts, the greater the flood of commodities from Germany must be.

RAW MATERIAL IMPORTS

Territorial losses will compel Germany to import a larger share of its raw material. In order to maintain its iron industry on the same basis as in 1913, assuming that the building of new factories will equalize the loss of the Alsace-Lorraine and Silesia plants, Germany will now be obliged to import at least 35,000,000 tons of ore yearly as compared with 14,000,000 tons before the war. The reduction in population resulting from territorial and war losses would, under normal conditions, have meant a decrease in the import of foodstuffs. The falling off of domestic production resulting from war neglect, lack of fertilizer and diminished labor efficiency, combined with territorial losses, make Germany at present, more than ever, dependent upon the outside world.

The amount which Germany must import in raw material and foodstuffs in order to reëstablish a normal economic life is still further increased by the total exhaustion of all reserve stocks. Economically, Germany is living a hand-to-mouth existence, and it can not return to a normal economic life until the stocks necessary to give industry and commerce stability have been replenished, and the machinery of industry and transportation has been restored to its full productive capacity. The American business man must, therefore, realize that the country which has always been represented to him as his most dangerous trade rival is now placed in the position where its former enemies exert themselves to force it to increase its exports of manufactured goods and to restrict its imports to necessary raw materials.

Only through a rigid and unrelaxed control of imports and exports can Germany hope to meet the present emergency. This necessity of government control, though denied by many interests in Germany for reasons not difficult to fathom, becomes the more urgent on account of the depreciation of the mark. If Germany were to permit the laissez-faire principle to operate, as she saw it operate in 1919, she would very soon be depleted of the

goods which form the only means of payment for the imports she needs so badly. In those days it occurred that entire factories were dismantled, and the machinery sold abroad because the factory could not operate on account of the lack of raw materials, and because the machinery brought attractive prices in marks. At present government control has become even more necessary because of the discrepancy in purchasing power between the mark held within and outside of Germany. Imports of foodstuffs paid for in marks not withdrawn from domestic circulation, the flood of goods through the "hole in the West," which the government was for a while unable to stem, the "flight of capital," and the discounting of Germany's obligations under the Peace Treaty have all been responsible for this.

Germany now operates under a *Zwangswirtschaft;* industry and commerce are largely placed under control of the government itself, or of the strongly organized industrial associations operating in harmony with government purposes.

THE "PLANWIRTSCHAFT"

Trade with Germany in the near future will be determined largely by the "Plan" according to which Germany is to rise. The *Planwirtschaft,* which gradually forces industry, transportation, banking and commerce into an economic lock-step, will operate according to the following principles. Imports should be reduced to a minimum through the most complete utilization of domestic resources. The greatest productive capacity should be obtained through standardization. The production of non-essentials should be limited. A carefully worked-out international price policy should reconquer the lost markets and accumulate the highest possible foreign balances to be used for the payment of debts and of purchases of raw materials.[1]

The organization of a *Planwirtschaft* is much facilitiated by the very pronounced tendency on the part of all business enterprises to combine. Scarcity of raw materials makes vertical combination the natural method to secure stability in supply and price. The loss of branch establishments through loss of territory and forced liquidation drive the crippled organizations into new alignments. Absorbing already established concerns is the quickest method to secure larger productive capacity, since the building of new plants is at present both time-consuming and costly. By acquiring larger assets subject to depreciation and especially by acquiring them, at least on paper, for the prevailing high prices, the possibility of much enlarged depreciation accounts and other secret reserves, is offered as a welcome cloak with which to hide the enormous profits resulting from a rising price level. The funds made available through liquidation in enemy countries enable the larger plants to absorb the smaller, purely domestic concerns, who, through the depreciation of the mark and the resulting high operating costs, are in pressing need of acquiring more working capital. The boom in the stock market makes it possible to obtain outside capital cheaply and readily. The monthly new offerings on the Berlin stock exchange average more than 1,000,000,000 marks.[2]

It is indeed open to question whether the general adjustment of the financial life of the concerns to the inflation of

[1] See Director Lusensky's address before *Deutsche Weltwirtschaftliche Gesellschaft* reported in *Weltwirtschaft* July, 1920, p. 208.

[2] See Dr. Felix Pinner "Sozialisierung und Vertrustung," *Berliner Tageblatt,* Nov. 27, 1920.

values will not in the end hamper their competitive position, especially since most of the capital increases are obtained in the form of cumulative preferred stock, and are frequently used to purchase assets which are certain to slump in value as soon as the shortage of coal and ore has been alleviated. For the present, however, the combination movement offers an easy opportunity for the control of the development of industry.

The desire to make the domestic resources supply industry as far as possible, finds practical expression in many directions. It may be expected that the fuel problem will have been effectively solved within the next five years by an increasing use of lignite, by technical improvements in engines, and by hydro-electric developments which are now under way. The economies resulting from these measures now taken as a matter of necessity may in the end improve the competitive position of German industry. A determined effort is made to make aluminum take the place of copper in order to do away with the necessity of importing large quantities of ore which would be needed to satisfy the copper hunger of German industry.[1] The development of the electro-chemical industry will cut down materially the need for the importation of nitrates, which before the war amounted to approximately 180,000,000 marks a year.

The *Reichswirtschaftsrat* has declared itself in favor of eliminating all economically unimportant industries, but it is not likely that this will be carried into practical effect with respect to those luxury industries which produce also for export. The wide margin between raw material costs and the price of the finished article make them under present circumstances ideal export products.[1]

[1] See *Commerce Reports*, January 5, 1920, and August 4, 1920.

Probably the most significant development is the increasing interest shown in the standardization of industry, a movement which was initiated by the *Verein Deutscher Ingenieure*, in May, 1917, and aims to obtain greater economy in production by cutting down the duplicate repair stocks necessitated by individualization. The direct effect of this "normalization" upon the world markets will be conditioned by the world's willingness to purchase standardized articles.

On the whole, costs of production are low in Germany. Food, coal and iron are maintained at prices below those prevailing in the world markets. Wages are in most industries far below those of the other European countries. A skilled workman receives approximately sixty marks a day, or, at the present rate of exchange, about ninety cents. Many industries, more especially those not dependent upon imported raw material are, therefore, in a position to underbid in the world markets. In the machinery trade, in aluminum, and enamelware articles, and in the specifically German lines, such as toys and chemical products, the Germans are at present underselling English and American manufacturers by as much as 50 per cent.[2]

The deflation, which has taken place over practically the entire world with varying violence, has stimulated, rather than hampered, German industry. It has made possible the purchase of raw products at more reasonable prices, and has offset, to a large

[1] See Hermann Muthesius "Qualitätsarbeid und Luxusbekämpfung," *Berliner Tageblatt*, October 31, 1920, and Hans Kraemer, "Die Kampf gegen die Luxusindustrien," *Deutsche Wirtschaftszeitung*, September 15, 1920.

[2] See *Commerce Reports*, January 10 and January 30, 1920; *The Times Trade Supplement*, December 18, 1920.

degree, the effects of continued inflation at home. It has also induced sellers to give more liberal credit terms in order to facilitate the movement of stocks.

FEAR OF GERMAN DUMPING

Isolated notices with respect to German competition, which continue to appear in consular reports and trade journals, have not failed to arouse a fear for German dumping which is not entirely without foundation. As long as the mark is depreciated in terms of gold, as long as domestic prices do not fully express this depreciation, as long as the currency of Germany is not in some way linked to a gold foundation through convertibility of the present mark, or of some new currency to be created in the future, Germany will remain a reservoir of potential dumping. There are, however, compensating factors.

Two significant suggestions appear in a notice in the Board of Trade Journal of December, 1920: one, to the effect that practically all the articles about which there is a complaint of dumping in England do not require an export license in Germany; the other, indicating that the complaints refer not so much to the volume as to the skill with which the goods are placed on the market. The law which at present controls German exports, dating from December 20, 1919, requires an export license for all goods. No licenses are issued unless the prices at which the goods are sold correspond closely to the market price in the country of destination. In the case of countries of less depreciated currencies quotations in that foreign currency are usually prescribed.[1]

The trade associations charged with the administration of this law are at present using greater care than formerly to adjust German export prices to world prices, though hampered by a lack of reliable channels of information. The desire to create foreign balances and not to arouse the animosity of foreign governments which would lead to anti-dumping legislation, such as is contemplated at present in Sweden, Denmark, Norway, Switzerland, Finland, England, Argentine and Japan, and against which under the terms of the Peace Treaty Germany has no means of defense, will induce them to use the greatest possible care.[1]

There are other factors which also make the danger of wholesale dumping less imminent. Inability to guarantee delivery, and in some cases to guarantee stability of price, coupled with a poor quality of workmanship and not infrequently, also, of material, are not trade-building factors. German labor may be cheap—it is also inefficient. The glass industry reports a 30 per cent production with a labor force equal to pre-war standards, while the German Potash Syndicate estimates the individual productivity of the workman at about 50 per cent.[2] The failure of German firms to abide by their contracts and the practice of the export offices to quote prices, which frequently allow dealers to supply their need more cheaply through some middleman in another country than from the German factory direct, lead many firms to prefer to buy at high prices elsewhere, rather than face the risk of handling German goods.[3]

[1] For a complete description of export licenses see W. Pahl, *Die Auszenhandelskontrolle*, Berlin, 1920. Some articles among which clocks, toys and textiles are excepted.

[1] See Dr. Julius Wolf, *Valuta und Finanznot in Deutschland.* Stuttgart, October, 1920.

[2] See Dr. W. Vershofen, "Porzellanindustrie und Exportwirtschaft," in *Weltwirtschaftszeitung*, June 25, 1920.

[3] See Dr. Th. Metz, "Lieferfristen," *Weltwirtschaftszeitung*, June 25, 1920; also Mr. Q. J. Terpstra, "Nieuwe Beroering in Onze Metaal Industrie," *Economisch-Statistische Berichten*, January 14, 1920.

The lack of working capital and the increased costs of bank credit[1] make it necessary in practically every case, not only to do business on a cash basis, but also to make a substantial deposit when placing an order. Low prices may not prove a sufficient inducement to overcome all these trade difficulties.

With the exception of certain raw materials and food products, no goods can at present be imported into Germany except on license. American goods are now finding their way into Germany, but they are almost exclusively raw products, foodstuffs and manufactured articles, which may be classed as necessities. In so far as import licenses can be procured, there is in Germany at present a good market for luxury articles on account of the shifting of wealth into the hands of those little accustomed to it.

The very circumstances which make imports difficult make Germany an attractive field for the investing of American capital. The domestic market is hungry for goods, while low operating costs under proper management make Germany a natural distributing center for Europe. The National Cash Register Company is now building a factory in Germany, while during June, 1920, the Amstea Company was organized in Berlin by the American Steel Export Company, the Automotive Products Corporation and the Eastern European Trading Company. Germany's capital shortage is attracting also capital from Holland, England, France, Sweden and Switzerland.

This *Verfremdung*, or, denationalization of German industry, is causing no little concern in Germany. From the point of view of American industry the investing of American capital in Germany must be looked upon with favor. The shift in capital will aid in rapidly and permanently rehabilitating and stabilizing the foreign exchange rate while avoiding the flooding of our market with German goods.

THE "VEREDLUNGSVERKEHR"

Of no less importance is the development of the *Veredlungsverkehr*. This is a method of international coöperation by which the German manufacturer is supplied with raw products with the understanding that he shall turn over to the foreign merchant a certain percentage of the manufactured goods. Throughout the process raw materials and finished goods remain the property of the foreign firm until the German manufacturer has liquidated his loan. Special facilities are offered by the German government for the development of this method of coöperation. It forms the most effective and economic means of translating German labor into purchasing power in the raw material markets. It has, moreover, from the German point of view, the advantage that the manufacturer is no longer tempted to import excessive amounts of raw material, using bank credit, or pledging his factory as security. The foreign merchant, moreover, bears all risks of changes in the market prices. On the other hand, the foreign firms profit not only by the cheap costs of production, but also in their being able to control the character of the finished goods, the place where the goods shall be marketed, and the price they shall bring, thereby affording greater protection to their own domestic industry. An additional benefit accrues to both from the use thus made of an already existing sales organization. In order to protect the interests of the foreign firm a number of trust organizations have

[1] In an article in the *Berliner Tageblatt* of October 19, 1920, "Die Verteuerung des Bankkredits" the author quotes a case in which, in consequence of the method of figuring the turn-over tax on accounts current, one firm was charged 52 per cent for credit accommodation.

been organized which will guarantee that the raw material supplied will be used as provided for in the contract, and that the property rights of the foreign firm will be fully protected.[1]

According to the *Deutsche Wirtschaftszeitung* of May 1, 1920, a company was organized in New York with a capital of $2,000,000 for the purpose of supplying raw cotton to German firms and accepting finished goods in payment. The Lancashire textile firms and those of Holland and Italy have established this method of coöperation with the German factories with varying degrees of success.

The ultimate effect of this method of trading is not different from that of the direct barter established through the Swiss Barter Institute,[2] and through private organizations like the Central European Trading Company of London, which exchanges raw products for their equivalent in finished goods with the firm Schubach, Thiemer & Co. of Hamburg.

In principle, the difference between the *Veredlungsverkehr* and the direct barter method lies in the fact that the former is essentially a credit transaction financed by the owner of the raw material, while the latter is as a rule a cash transaction.[3]

The barter method allows the German dealers to procure their raw materials in exchange for essentially German goods and allows them greater freedom in selecting goods for this exchange which possess a large degree of value with a low material cost.[1] Without being embarrassed by currency difficulties, they secure all the benefits of the world market price for their finished goods. The advantages are to some extent offset by the necessity of employing middlemen and by the government export regulations which have thus far not favored this method of exchange.

Germany as a buying and selling market for America presents, therefore, the following picture. It is a country of a low standard of living and a depreciated currency, and, therefore, of low costs in many manufacturing lines, except in those lines where raw material or capital investment are the determining cost factors. Exports and imports are controlled both as to price and volume according to the needs of the country and of German industry, which constantly is becoming more centralized and more easily whipped into line. On the whole, it is a poor place to sell and a good place to buy. Many factors contribute to lessen the danger of this situation. Everything which contributes to raising the price level in Germany in terms of gold will accrue to the benefit of American industry. Indiscriminate export credits will depress the mark still further and will aggravate the situation, except in so far as these credits are fully covered by reëxports of finished goods. The investment of American capital in German industry will have a salutory effect in hastening the rehabilitation of the mark and in allowing some measure of control in the sale of finished goods.

Another method of coöperation by which both sides would profit may be found in agreements which would allow American manufacturers to act as distributing agents for German goods

[1] The *Deutsche Waren-Treuhand A. G.* of Hamburg, organized in the spring of 1920, is one of these institutions.

[2] A detailed description of the *Schweizerische genossenschaft für Warenaustausch* can be found in *Die Schweizerische Volkswirtschaft im Uebergangsjahr 1919*. Published by the *Schweizerische Bankverein* of Basel.

[3] The *Geschäfte mit Valuta klausel* as practised by the Swiss Barter Institute are credit transactions in which the country of low exchange supplies the credit.

[1] This is spoken of in Germany as a "high production coefficient."

in the American and foreign markets. The Germans would save time and expense in being relieved of the necessity of rebuilding their own sales organization, while American interests would profit by being able to control to some extent the basis of competition with American industry at home and abroad.

The Chinese Consortium and American Trade Relations with China and the Far East

By Thomas W. Lamont
J. P. Morgan and Co.

EXAMINATION of American trade relations with the Far East and the problem of their future development along peaceful lines offer to manufacturers and merchants an interesting field of large opportunity, and to students and statesmen a realm of useful study. We front the Pacific basin with a great coastline and have in it the important outposts of Hawaii, the Philippines, Guam and our part of the Samoan group. Its trade on our Western coast, in Japan, in China, in the East Indies, in Australia and the South Seas is expanding rapidly, and each year must add to its volume and to the importance of our political, social and cultural relations to the nations which participate in it. In time there must be duplicated, possibly exceeded, all that has been done in the Atlantic basin. Therefore, there lies before us as a nation no more important problem than the ordering, in peace, of the part that we are to play, in our several relationships to it, in the Western ocean.

Survey—even cursory—of our past experience there is both instructive and interesting. Some excellent things disclose themselves, but the chief conclusions that came to me from my survey were, first, that our changing government had failed almost invariably to maintain a consistent or constant policy, either toward its neighbors or towards its own traders; and, second, that our commercial efforts had been sporadic and not sustained. Probably the first inconstancy reacted upon the second, and it is likely that the extraordinary developments at home that followed the discovery of gold in California and our Civil War served to make us self-centered in our business effort. This alternate development and contraction is curiously exemplified by our commercial experience with China where our trade has moved in a series of definitely marked cycles. We began there with the romantic and inspiring era of the clipper ships which, sailing chiefly from New England ports, began in colonial times to trade with China. Slow at first in expansion, our trade finally grew in importance. After that, in the middle of the last century, came the period of the great American hongs or business houses in China, established by merchants from New England and New York. These hongs, after years of extraordinary prosperity, one by one, surrendered the field to British and European traders, no doubt because American ships had by that time disappeared from the sea and without ships competition with the Europeans was impossible.

There was still another era, developed first by the enterprise of our western merchants, and the Pacific Mail Steamship Company, supplemented later by the Canadian Pacific Railway, the late James J. Hill, and men like Robert